



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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Notice of Adoption and Filing of Examination Report

Take notice that the proposed report of the market conduct examination of the

Allstate Insurance Company
3075 Sanders Road, Suite H1A
Northbrook, IL 60062-7127

dated April 23-May 3, 2001, and served upon the company on April 23, 2002, has been adopted as the final report, and has been placed on file as an official public record of this Office.

Dated at Madison, Wisconsin, this 24th day of October, 2002.

Connie L. O'Connell
Commissioner of Insurance

AllstateInsCoAdpFm.doc

STATE OF WISCONSIN
OFFICE OF THE COMMISSIONER OF INSURANCE
MARKET CONDUCT EXAMINATION

OF

ALLSTATE INSURANCE COMPANY

NORTHBROOK, ILLINOIS

APRIL 23 –MAY 3, 2001

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April 18, 2002

Honorable Connie L. O'Connell
Commissioner of Insurance
Madison, WI 53702

Commissioner:

In accordance with your instructions, a targeted market conduct examination has been made on April 23, 2001, to May 3, 2001, of:

ALLSTATE INSURANCE COMPANY

Northbrook, Illinois

and the following report is respectfully submitted.

I. INTRODUCTION

Allstate Insurance Company is a property and casualty insurer licensed to transact business in the District of Columbia, Puerto Rico, Canada and all states except New Jersey. It operates on a non-admitted basis in Texas. The company is wholly owned by The Allstate Corporation, a publicly traded holding company. The company was incorporated on February 9, 1931, under the laws of Illinois and began business April 17, 1931. The company was licensed in Wisconsin September 17, 1936. The company writes automobile and homeowner's insurance in Wisconsin, along with smaller amounts of commercial multiple peril and fire and allied lines insurance. During 2000, the company wrote the following premiums and paid the following losses:

	Direct Premiums Written	Direct Losses Paid
Nationwide	\$13,033,402,058	\$8,298,487,339
Wisconsin Business Only	91,365,242	66,146,762

The Office of the Commissioner of Insurance received 59 complaints in 2000 and 90 complaints in 1999. A complaint is defined as a written communication to the Commissioner's Office that indicates dissatisfaction with an insurance company or agent. The following chart categorizes these complaints by complaint reason. There may be more than one reason for each complaint.

2000Coverage Type	Underwriting	Marketing & Sales	Claims	Policyholder Service	Other
Personal Auto	10	6	19	11	1
Commercial Vehicle	0	0	0	0	0
Com Prop & Liability	0	0	0	0	0
Home/Farmowners	4	2	9	1	0
Commercial Liability	0	0	0	0	0
Worker's Comp	0	0	0	0	0
Fidelity & Surety	0	0	0	0	0
All Others	1	1	0	0	0
Total	15	9	28	12	1

1999					
1999Coverage Type	Underwriting	Marketing & Sales	Claims	Policyholder Service	Other
Personal Auto	12	8	29	18	3
Commercial Vehicle	0	0	0	0	0
Com Prop & Liability	0	0	0	0	0
Home/Farmowners	10	4	10	1	0
Commercial Liability	0	0	0	0	0
Worker's Comp	0	0	0	0	1
Fidelity & Surety	0	0	0	0	0
All Others	1	0	2	2	0
Total	23	12	41	21	4

The company appeared on the above-average complaint list for automobile insurance in 1999. This list is comprised of all companies with 10 or more complaints in 1999 that have a complaint ratio above the average. The company's 1999 complaint ratio for automobile insurance, using 1998 written premiums in relation to 1999 complaints, was .08 per \$100,000 of written premiums with 59 automobile complaints. The Wisconsin average for all insurers writing automobile insurance was .06 per \$100,000 of written premiums.

II. PURPOSE AND SCOPE

The examination was conducted to determine if the company's practices and procedures comply with Wisconsin insurance statutes and rules.

The examination included, but was not limited to, the review of the following company practices and procedures.

Business Line	Area
Personal passenger automobile	Underwriting
	Policy Forms – all lines
Homeowner's	Claims
	Marketing and Sales
	Policyholder Service
	Complaint Handling
	Producer Licensing

III. SUMMARY AND FINDINGS

FORMS REVIEW

The examiners reviewed 544 personal and commercial insurance policy forms for compliance with Wisconsin insurance laws, rules, and court decisions. The following discusses areas where the forms did not comply.

Business Package

Section Ins 4.01 (h), Wis. Adm. Code, provides that real property owned and occupied by an insured which is partially destroyed but ordered destroyed under a fire ordinance or similar law, shall be considered wholly destroyed for purposes of the valued policy law, s. 632.05 (2), Wis. Stat. Letter B. Exclusions – Losses Not Covered, 1.a. Ordinance or Law of the Causes of Loss—Supra Form, form number BU9403B (8-99), states that the company will not cover any loss that results from the enforcement of any law governing the use, construction, repair or demolition of buildings or other structures, including the removal of debris. Some types of property covered by the business package policy may be subject to s. Ins 4.01 (h), Wis. Adm. Code. It is recommended that the company revise form BU9403B (8-99) to comply with s. Ins 4.01 (h), Wis. Adm. Code.

The company uses form CG 01 24 01 93, Wisconsin Changes Endorsement, to amend two conditions, Legal Action Against Us and Transfer of Rights of Recovery Against Other to Us, in the following forms: BU9605 (Ed. 1-86), BU9606 (Ed. 1-86), BU9607 (Ed. 1-86), BU9608 (Ed. 1-86), BU9630-1 (Ed. 1-88), BU9640 (Ed. 1-86), and BU9641 (Ed. 1-86). Form CG 01 24 01 93 refers to these conditions as being in Section IV and the Transfer of Rights of Recovery Against Other to Us as Condition 8. These references do not correspond to those that actually appear in the listed forms. It is recommended that the company amend its current Wisconsin Changes Endorsement, CG 01 24 01 93, to reflect the proper sections and/or conditions in the forms listed in this report for the Legal Action Against Us and Transfer of Rights of Recovery Against Other to Us conditions.

Commercial Forms – Binders and Applications

Section 631.20 (1) (a), Wis. Stat., states, in part, that no form subject to s. 631.01 (1), may be used unless it has been filed with and approved by the commissioner. Section 600.03 (21), Wis. Stat., defines a form as a policy or application prepared for general use and does not include

one specially prepared for use in an individual case. The company uses a Business Auto Policy Binder Document Wisconsin that includes an Uninsured/Underinsured Motorists Coverage Selection/Rejection Form whereby the applicant or insured may select certain uninsured or underinsured limits or reject underinsured motorists coverage. This form is considered a supplement to the application and subject to s. 631.20 (1) (a), Wis. Stat. The company cannot provide documentation that this form has been filed with and approved by the commissioner. It is recommended that the company implement a procedure to ensure that it files and receives approval to use all forms subject to s. 631.01 (1), Wis. Stat., in order to comply with s. 631.20 (1), Wis. Stat.

Commercial Inland Marine

The company uses Wisconsin Changes endorsement, CM 01 05 09 00, to amend the Transfer of Rights of Recovery Against Other to Us in form BU9212 (Ed. 8-89). The endorsement refers to Condition J. Transfer of Rights of Recovery Against Other to Us. Form BU9212 (Ed. 8-89) refers to G. Transfer of Rights of Recovery Against Other to Us. The examiners noted that it is misleading to use an endorsement to a policy that contains language/provisions that do not correspond to the policy. It is recommended that the company amend its current Wisconsin Changes endorsement, CM 01 05 09 00 to reflect the proper reference to item G, Transfer of Rights of Recovery Against Other to Us in form BU9212 (Ed. 8-89).

Customizer Business Insurance Policy - Named Peril

Section Ins 6.76 (3), Wis. Adm. Code, provides for authorized clauses to be used in fire, inland marine, and other property insurance forms pursuant to s. 631.23, Wis. Stat. Appropriate liberalization of the prescribed language is permitted. Subsection (3) (e) 2, Wis. Adm. Code, provides that coverage may be suspended or restricted while a described building is vacant or unoccupied beyond a period of 60 consecutive days. The Customizer Business Insurance Policy, Named Peril, form BU5560 (Ed. 1-96), page 9, number 8. Vandalism and Malicious Mischief, states that the company will not cover vandalism loss to covered property if the building has been vacant or unoccupied for more than 30 consecutive days just before the loss. This language is different than the authorized language. It is recommended that the company revise the Customizer Business Insurance Policy Named Peril, form BU5560 (Ed. 1-96), page 9, number 8. Vandalism and Malicious

Mischief, to provide for coverage for losses if the building has been vacant or unoccupied for less than 61 days.

Commercial Umbrella Excess Liability

Section 632.32, Wis. Stat., applies to every policy of insurance issued or delivered in this state against the insured's liability for loss or damage resulting from accident caused by any motor vehicle. Subsection (6) (b) 1, Wis. Stat., provides that persons related by blood or marriage to the insured may not be excluded from coverage or benefits. The commercial umbrella excess liability policy provides motor vehicle liability coverage. The Cross Suits Endorsement, form number UEL19 (Ed. 10-86), excludes coverage for damages arising out of injury, as defined, which is initiated, alleged, or caused to be brought by any insured covered by the policy against any other insured covered by the policy. This exclusion may involve a claim against an insured by a person related to the insured and, therefore, does not comply with the statute. It is recommended that the company revise the Cross Suits Endorsement, UEL19 (Ed. 10-86), to not apply to motor vehicle liability claims involving persons related to the insured in order to comply with s. 632.32 (6) (b) 1, Wis. Stat.

Commercial Automobile

Section 632.32, Wis. Stat., applies to every policy of insurance issued or delivered in this state against the insured's liability for loss or damage resulting from accident caused by any motor vehicle. Subsection (3) (a), of the statute, provides that coverage provided to the named insured applies in the same manner and under the same provisions to any person using the motor vehicle described in the policy when the use is for purposes and in the manner described in the policy. Section 102.03 (2), Wis. Stat., permits an employee to bring action against any co-employee for negligent operation of a motor vehicle not owned or leased by the employer. The Amendment of the Fellow Employee Exclusion endorsement, form BU1124 (Ed. 1-97), amends the Commercial Automobile Policy Fellow Employee exclusion by exempting certain classes of employees, such as executive officers, managers, supervisors, etc., from the exclusion, thereby, providing liability coverage for certain classes of employees but not other classes. It is recommended that the company withdraw and discontinue use of the Amendment of the Fellow Employee Exclusion

endorsement, form BU1124 (Ed. 1-97), in order to comply with ss. 632.32 (3) (a) and 102.03 (2), Wis. Stats.

Homeowners

A review of the company's homeowners insurance policy forms revealed a number of provisions in the forms do not comply with Wisconsin insurance laws and rules. The forms and provisions that do not comply are as follows:

1. Section 631.95 (2) (f), Wis. Stat., provides that an insurer may not, under property insurance coverage that excludes coverage for loss or damage to property resulting from intentional acts, deny payment to an insured for a claim based on property loss or damage resulting from an act, or pattern, of abuse or domestic abuse if that insured did not cooperate in or contribute to the creation of the loss or damage and if the person who committed the act or acts that caused the loss or damage is criminally prosecuted for the act or acts. The following forms have one or more exclusions for loss or damage to property resulting from intentional acts: Standard Homeowners Policy, form AP1; Deluxe Homeowners Policy, form AP2; Standard Select Value Homeowners Policy, form AP148; Deluxe Select Value Homeowners Policy, form AP149; Deluxe Plus Homeowners Policy, form AP337; and Deluxe Country Homeowners Policy, form AP8. The policies must be amended to comply to s. 631.95 (2) (f), Wis. Stat.
2. Section 631.81 (1), Wis. Stat., states that notice of loss should be made as soon as reasonably possible and that failure by the insured to give notice does not invalidate or reduce the claim unless the insurer is prejudiced by the failure to give notice. The following forms, under the Additional Protection section, 2. Credit Card and Check Forgery, state that the insured must give the company immediate written notice: Standard Homeowners Policy, form AP1; Deluxe Homeowners Policy, form AP2; Standard Select Value Homeowners Policy, form AP148; Deluxe Select Value Homeowners Policy, form AP149; Deluxe Plus Homeowners Policy, form AP337; and Deluxe Country Homeowners Policy, form AP8. This is more restrictive than the statute.
3. Section Ins 6.76 (3), Wis. Adm. Code, provides for authorized clauses to be used in fire, inland marine, and other property insurance forms pursuant to s. 631.23, Wis. Stat. Appropriate liberalization of the prescribed language is permitted. Subsection (3) (e) 2, Wis. Adm. Code, provides that coverage may be suspended or restricted while a described building is vacant or unoccupied beyond a period of 60 consecutive days. The following forms, on page 10 under 8. Vandalism and Malicious Mischief, state that the company will not cover losses to covered property if the building has been vacant or unoccupied for more than 30 consecutive days just before the loss: Deluxe Homeowners Policy, form AP2, Deluxe Select Value Homeowners Policy, form AP149, and Deluxe Plus Homeowners Policy, form AP337; and on page 8 of Deluxe Country Homeowners Policy, form AP8. This language is different than the authorized language.
4. Section 631.36 (2) (c), Wis. Stat., provides that an insurer may cancel a policy that has been in effect for less than 60 days by giving at least 10 days advance notice. Application forms AR113-1 and SAR113-1H contain the following statement, "The company may terminate any insurance bound by mailing to the applicant, at the address herein given, 10 days written notice of rejection of this application." This statement must be amended to clarify that the cancellation may only be done if notice is given within the first 59 days of the bound date.
5. Section 631.13, Wis. Stat., states that no insurance contract may contain any agreement or incorporate any provision not fully set forth in the policy or in an application or other document attached to and made a part of the policy at the time of its delivery. Wisconsin Amendatory

Endorsement – AP162-1 under number 11 and Wisconsin Amendatory Endorsement – AP164-1 under number 7, contain the sentence, “However, we will pay for such coverage as stated in Wisconsin state laws.” The specific language from the state laws is not contained in the policy, application, or other attached documents and, therefore, is being incorporated within the policy by reference.

It is recommended that the company revise its homeowners insurance policy forms as detailed in the text of this section of the report in order to comply with ss. 631.95 (2) (f), 631.81 (1), 631.36 (2) (c), and 631.13, Wis. Stats. and s. Ins 6.76 (3), Wis. Adm. Code.

Renters

A review of the company’s renters insurance policy forms revealed a number of provisions in the forms do not comply with Wisconsin insurance laws. The forms and provisions that do not comply are as follows:

1. Section 631.95 (2) (f), Wis. Stat., provides that an insurer may not, under property insurance coverage that excludes coverage for loss or damage to property resulting from intentional acts, deny payment to an insured for a claim based on property loss or damage resulting from an act, or pattern, of abuse or domestic abuse if that insured did not cooperate in or contribute to the creation of the loss or damage and if the person who committed the act or acts that caused the loss or damage is criminally prosecuted for the act or acts. Renters Policy, form AP5, on page 8, number 9. excludes loss or damage to property resulting from intentional acts. The policy must be amended to comply to s. 631.95 (2) (f), Wis. Stat.
2. Section 631.81 (1), Wis. Stat., states that notice of loss should be made as soon as reasonably possible and that failure by the insured to give notice does not invalidate or reduce the claim unless the insurer is prejudiced by the failure to give notice. The Renters Policy, form AP5, under the Additional Protection section, 2. Credit Card, Bank Fund Transfer Card, Check Forgery and Counterfeit Money, states that the insured must give the company immediate written notice. This is more restrictive than the statute.
3. Section 631.36 (2) (c), Wis. Stat., provides that an insurer may cancel a policy that has been in effect for less than 60 days by giving at least 10 days advance notice. Application forms AR113-1 and SAR113-1H contain the following statement, “The company may terminate any insurance bound by mailing to the applicant, at the address herein given, 10 days written notice of rejection of this application.” This statement must be amended to clarify that the cancellation may only be done if the coverage has been in place for less than 60 days of the bound date.

It is recommended that the company revise its renters insurance policy forms as detailed in the text of this section of the report in order to comply with ss. 631.95 (2) (f), 631.81 (1), and 631.36 (2) (c), Wis. Stats.

Condominium Owners

A review of the company's condominium owners insurance policy forms revealed a number of provisions in the forms do not comply with Wisconsin insurance laws and rules. The forms and provisions that do not comply are as follows:

1. Section 631.95 (2) (f), Wis. Stat., provides that an insurer may not, under property insurance coverage that excludes coverage for loss or damage to property resulting from intentional acts, deny payment to an insured for a claim based on property loss or damage resulting from an act, or pattern, of abuse or domestic abuse if that insured did not cooperate in or contribute to the creation of the loss or damage and if the person who committed the act or acts that caused the loss or damage is criminally prosecuted for the act or acts. The Condominium Owners Policy, form AP7, page 8, number 9, excludes loss or damage to property resulting from intentional acts. The policy must be amended to comply to s. 631.95 (2) (f), Wis. Stat.
2. Section 631.81 (1), Wis. Stat., states that notice of loss should be made as soon as reasonably possible and that failure by the insured to give notice does not invalidate or reduce the claim unless the insurer is prejudiced by the failure to give notice. The Condominium Owners Policy, form AP7, under the Additional Protection section, 2. Credit Card and Check Forgery, states that the insured must give the company immediate written notice. This is more restrictive than the statute.
3. Section 631.36 (2) (c), Wis. Stat., provides that an insurer may cancel a policy that has been in effect for less than 60 days by giving at least 10 days advance notice. Application forms AR113-1 and SAR113-1H contain the following statement, "The company may terminate any insurance bound by mailing to the applicant, at the address herein given, 10 days written notice of rejection of this application." This statement must be amended to clarify that the cancellation may only be done if the coverage has been in place for less than 60 days of the bound date.
4. Section 631.13, Wis. Stat., states that no insurance contract may contain any agreement or incorporate any provision not fully set forth in the policy or in an application or other document attached to and made a part of the policy at the time of its delivery. Page 2, under number 5, of the Wisconsin Amendatory Endorsement – AP163-1, contains the sentence, "However, we will pay for such coverage as stated in Wisconsin state laws." The specific language from the state laws is not contained in the policy, application, or other attached documents and, therefore, is being incorporated within the policy by reference.

It is recommended that the company revise its condominium owners insurance policy forms as detailed in the text of this section of the report in order to comply with ss. 631.95 (2) (f), 631.81 (1), 631.36 (2) (c), and 631.13, Wis. Stats.

UNDERWRITING

Manual and Guidelines

The examiners reviewed the company's underwriting manuals and guidelines. The Modern Marketing Guides, Wisconsin Guidelines, contains two pages listing auto nonstandard insurance carriers. In a column entitled "Additional Information", it indicates that four listed carriers are "considered no prior insurance." The company explained that those companies only offered

physical damage coverage. The company's guidelines require applicants to have prior liability insurance. If the applicant had one of those carriers, it would not be considered as having previous insurance. It was pointed out to the company that at least one of those carriers does offer liability coverage. The company then responded that if the declarations page from the previous carrier shows liability coverage, it would be considered as prior insurance. It is recommended that the company revise its Wisconsin guidelines to reflect its current procedure regarding prior liability insurance and clarify that a carrier which had provided liability insurance to an applicant is considered as prior insurance, in order to ensure compliance with s 628.34(11), Wis. Stat.

Question 16 of the examiner's Underwriting Interrogatories asks the company to describe whether and how the company uses credit information in underwriting and/or rating of personal lines insurance. The company responded that it uses credit information. The company uses a vendor, Transunion, that provides credit report data to a third-party vendor, Acxiom, who runs the data through the company's financial stability algorithm to provide the correct classification. An internal company team manages and monitors the database of credit information. The company's agencies and employees who process new business and endorsements only see the financial stability classification, not the credit report itself. Credit reports are ordered on the first two listed operators/occupants and the financial stability classification is the lower of the two classifications.

The four classifications are unacceptable, clean, acceptable, and no hit. Unacceptable means the presence of one or more of the following items within the past five years: unsatisfied or unresolved judgments, liens, or repossessions; foreclosures or bankruptcies; or two or more of any of the following in excess of or equal to \$100: charge-off, collection, or an account past due more than 120 days. Clean means no public record items and no derogatory trade account items other than the presence of one incident less than 60 days late. Acceptable means not clean or unacceptable. No hit means no credit history was available. A person with no credit history is considered in the acceptable classification. The company indicated it does not use credit history as the sole reason for rejecting, canceling, or nonrenewing a policy. At the time of this report, it was the Commissioner's position that credit information could be used by insurers if it was not the sole reason for rejection or cancellation of personal lines insurance coverages.

Agency Visit

The examiners visited the Jim Fish Agency, Inc., in order to view and discuss the processing of the company's business.

During the agency visit, the examiners found that the agency has different binding authority dependent upon the line of business. The agents are required to gather motor vehicle, credit, and claims-history records for new applicants, but not for renewal business. The agency is given only a credit score, not individual information. The company requires agents to retain the applications, medical payments coverage rejection forms, documentation of prior insurance, vehicle inspection reports, and any other pertinent policyholder information. The agency keeps active policy files on-site and terminated policy files at an off-site location, two buildings away from the main office building. The files are kept alphabetically, by year. Terminated files are kept for three years and then destroyed.

The company provides its agencies with a document, entitled "Allstate Agency Standards", that includes operating and service standards, to which agencies are required to adhere. One section indicates the agency must provide oral notice to prospects/customers in all states prior to ordering credit, motor vehicle, and loss information reports and must provide the proper Gramm-Leach-Bliley (GLB) notice. Another section sets forth the activities that are allowed and prohibited for unlicensed support staff. The company requires agencies to use a specific telephone system that is linked to the company. The company can then monitor its agencies telephone use as to whether or not the agency is adhering to its standards (standards such as the general binding processes, submission of applications within seven days of binding date, deposit of premium payments, etc.). A territory representative visits approximately two to three times a year.

The examiners requested the agency provide them with ten automobile files that represented new business in 2000. Nine files were still active and on-site at the agency. One file was located off-site and was retrieved promptly. The examiners had reviewed the company's system containing electronic information for these ten files during the on-site examination in Bannockburn, Illinois. The examiners had not been able to determine who the writing/soliciting agent was as the company's system had only listed the agency name. The company had been

asked to provide the name of the individual that sold the policy (signed application) and to describe how it verified that the business it accepted was written by a listed and licensed agent. The company had responded that the name of the writing agent was Jim Fish and that the Allstate Agency Standards addresses the agency's responsibilities for ensuring that all support staff are in compliance with applicable licensing laws. In reviewing the applications, the examiners found that Jim Fish had not signed any of the applications. Seven applications had been signed by three other agents working at the Jim Fish agency. A recommendation is made in the Marketing and Sales section of this report to request that the agent writing the business be named on the applications and verified as an appointed agent.

The examiners viewed the process for handling a new automobile application. It was noted that there are a number of questions that are asked of the applicant that appear on the individual screens, but that do not print out as part of the application the applicant signs. This is the case for automobile, homeowners, and personal umbrella applications. The application the applicant signs contains the following statement, "To the best of my knowledge the statements made on this application, including any attachments, are true.... The company may recompute the premium shown if the statements made herein are incomplete or are not true." The applicant is being asked to attest to the correctness of answers to questions that the applicant does not have an opportunity to view for correctness. The examiners asked the company whether it would recompute the premium or, in the extreme, cancel or void the policy or deny a claim, based on answers to questions that were allegedly asked, but that the applicant was not given a chance to view and then attest to its/their correctness. The company responded that it would not recompute premium, cancel or void a policy, or deny a claim based on answers to questions asked by the agent but that were not printed on the application.

File Review

The examiners reviewed 457 underwriting files: 147 automobile and 150 homeowners terminations and 60 automobile and 100 homeowners new business files.

The examiners found an automobile termination where the cancellation notice indicated the policy was being terminated due to information contained in the applicant's credit report (more

than one collection of \$100 or greater). This is contrary to the commissioner's "Bulletins to Insurers" dated June 16, 1997, regarding the use of credit reports in underwriting personal auto and homeowners policies. Credit information should not be used as the sole reason to refuse an application, cancel a new policy in its first 60 days, or nonrenew an existing policy. The company indicated the actual reason was the information in the credit report and no company supporting policy for 60 days. It is recommended that the company develop a procedure to accurately state, with reasonable precision of the facts required by s.631.36, Wis. Stat., the complete reason that a policy is being cancelled or nonrenewed and submit the procedure for approval within 90 days of the adoption of the report in order to ensure compliance with the commissioner's position regarding the use of credit reports in underwriting personal automobile and homeowners policies.

The examiners found an automobile termination where the nonrenewal notice indicated the policy was being nonrenewed because the insured's agent was no longer affiliated with the company. The notice did not contain an offer to continue or renew the policy with the company. Section 631.36 (4m), Wis. Stat., states, in part, that an insurer may refuse to renew a policy under sub. (3) or (4) solely because of the termination of an insurance marketing intermediary's contract with the insurer only if the notice of nonrenewal contains an offer to continue or renew the policy with the insurer. It is recommended that the company include in its nonrenewal notices an offer to continue or renew the policy if the policy is nonrenewed solely because of the termination of the insurance marketing intermediary's contract in order to comply with s. 631.36 (4m), Wis. Stat.

In reviewing the new business files, the examiners found one file where the agent on the company's system who was indicated as the agent was not listed with the company at the time the application was completed. Additional follow-up with the company regarding this agent revealed he had written a total of 331 policies prior to being listed by the company.

In reviewing the new business files, the examiners also noted 31 files where the agency name rather than the individual agent's name was listed as the writing agent. The examiners asked the company for the name of the writing agent for each file. The company provided a response. During the agency visit, it was noted that the agents who actually wrote the 10 new business files for that agency that had been reviewed at the company were not the agent the company represented

was the writing agent. The company had provided the principal's or agency owner's name. The company was again asked to provide the name of the writing agent for the remaining 21 files. The company responded that eight agents were the person originally represented as the writing agent, five files involved rollover business with no specific agent assigned, two files could not be located as the agents have been terminated, one file was a transfer from New Jersey, five files (including one of the files that could not be located) were written by agents other than originally indicated, and one file could not be found due to a fire in the agency where most of the company's files were destroyed. Of the five files written by other agents, it was revealed that one agent is not and has never been listed with the company and the other agent was not listed with the company at the time of the application. It is recommended that the company develop and implement a program to verify that the agents submitting applications are duly listed with the company in order to ensure compliance with s. Ins 6.57 (5), Wis. Adm. Code, and submit a summary of the program to the Commissioner within 90 days of the adoption of this report.

Additional review of the underwriting manuals and guidelines and underwriting files was done to determine whether the company is using information regarding domestic violence to underwrite or rate its policies. No evidence was found to indicate its use.

CLAIMS

Manuals

The examiners reviewed the company's claim manuals containing adjusting procedures. No exceptions were noted.

File Review

The examiners reviewed 354 claim files; 229 automobile, 100 homeowners, and 23 subrogation claim files.

The examiners found one subrogation file where the company received installment payments from the negligent party and did not promptly reimburse its insured's deductible. When installment payments extend over a long period of time, there may be a considerable span of time, before insureds are made whole. The Wisconsin Supreme Court decision, Rimes v. State Farm Mutual Automobile Insurance Company, 106 Wis. 2d 263, provides for the insured to be made whole

before the insurer retains any recovery. It is recommended that the company submit a plan to promptly reimburse its insureds' deductibles when collecting installment payments from negligent parties in order to make its insureds whole and to comply with the Wisconsin Supreme Court decision, Rimes v. State Farm Mutual Automobile Insurance Company, 106 Wis. 2d 263.

The examiners found three files in which the company did not send a written claim denial after a verbal denial was given. The company indicated it only sends a written denial when requested by the claimant or claimant's representative. Section Ins 6.11 (3) (b) 2, Wis. Adm. Code, provides that a company make provision for adequate claims handling systems and procedures to effectively service claims. In order to document its claim files, it is recommended that the company implement procedures that ensure a written claim denial is sent and documented in the claim file promptly after the claim is verbally denied.

The examiners found one file where the company had incorrectly paid a loss under the collision coverage of an automobile policy when it should have been covered under the comprehensive coverage. The company later discovered its error and returned the difference in the collision and comprehensive deductibles to the insured. However, the company did not include interest on the difference. Section 628.46, Wis. Stat., provides for interest to be paid on claims that are not paid within 30 days of receipt of documentation. It is recommended that the company include interest on claims that are not paid within 30 days of receipt of documentation in order to comply with s. 628.46, Wis. Stat.

The examiners found one file where the company paid a claim entirely under the dwelling coverage of a homeowners policy. The claim included payment for a sofa, which is personal property. Miscoding of the coverage skews the loss ratios for rating purposes for both the dwelling and personal property coverages. One file was found involving a dog bite claim where the company's loss description in its system was a fireplace explosion. The error in the description of the claim resulted in the company not investigating whether or not the dog was removed from the insured's premises. If a similar claim would arise in the future, this could result in the company being liable for two times the full amount of damages caused by the dog pursuant to s. 174.02, Wis. Stat.

The company should improve its internal audit procedures to catch coding errors as mentioned above.

MARKETING AND SALES

The company markets through captive agents who are exclusive writers for the company. These agents are not permitted to represent or solicit business for any other company, agent, or broker except as allowed by the company. The company also maintains relationships with independent agencies who are authorized to sell for the company as well as those of other companies. All agents are asked to sign an agreement with the company documenting the relationship.

Number 21 of the examiner's Producer Licensing Interrogatories asked the company to describe how it verifies that all business that it accepts is written by agents who are duly listed for the company, as provided in s. 628.11, Wis. Stat., and s. Ins 6.57 (5), Wis. Adm. Code. The company response indicated that each listed agent is assigned an agent number that is affixed to every piece of business submitted to the company. Upon input of the business and agent number into the company's ALSTAR computer system, the agent number, secured by a password, is verified. An invalid agent number will not be accepted by the system. However, as commented on below, it was found that the agent number usually represents the principal or the agency owner but not the individual agents within the agency. The individual agents use the principal's or agency owner's agent number when submitting business. Therefore, the company is not aware of the individual agent that actually signed the application and whether or not he/she is a listed agent. The company relies on the principal or agency owner to ensure all agents writing business within the agency are duly licensed and listed.

To review further the company's obligation to notify the commissioner of agents that are appointed or terminated, the examiners compared lists produced by the company with OCI lists. One of the comparisons included a company list of all agents licensed and appointed to sell business in Wisconsin at any time during the examination period of January 1 through December 31, 2000. The data provided by the company was then compared to the agents' data from the agent licensing system of the commissioner. A number of discrepancies were found and the company was

asked to provide an explanation. The following describes those discrepancies and the company's responses.

Three agents that the company indicated were listed during the examination period were not shown as listed on the commissioner's list of agents. The examiners asked the company to provide the number of policies written by each agent. The company responded that it had a screen print from its licensing tracking system that indicated appointments for two of the agents had been forwarded to the commissioner on July 9, 1999. However, the commissioner's system does not show them listed for the company. The company had no documentation to show an appointment for the third agent. The company provided information that one agent had written 78 policies, another had written 331 policies (also mentioned in the Underwriting section of this report), and the third had not written any policies.

The examiners provided a list of 268 agents that the commissioner showed as being currently listed with the company but that the company did not include in its list. The company indicated 228 agents were active non-resident agents and had not thought the data request included non-resident agents. Four independent agencies' contracts had been terminated. However, independent agencies represent the company in a limited capacity and are paid commissions during a run-off period after the contracts are terminated. Therefore, they should have been included, as no formal termination to the commissioner had been made. Thirteen agents were resident agents whose contracts with the company had been terminated but no termination notice had been sent to the commissioner. Twenty-three agents were support staff in active agencies that should have been included.

The examiners provided a list of 100 agents that the commissioner showed as being listed with the company sometime during the examination period, but that the company did not include in its list. The company indicated twenty-eight agents were active non-resident agents and had not thought the data request included non-resident agents. Fifty agents were support staff in active agencies. The company's records showed that it had terminated four of those agents prior to the examination periods and that the other forty-six should have been included. Allstate Financial

Services (AFS), a separate division of the company that lists its own agents, had listed the remaining twenty-two agents. These agents should have been included.

The examiners provided the company with a list of ten agents whose agent license numbers shown in the commissioner's records did not correspond to the agent license numbers in the company's records. The company was asked to either amend its licensing tracking system to correspond to the commissioner's records or provide documentation to support that its system was correct. The company amended its licensing tracking system to correspond to the commissioner's records.

Based on the comparisons described above between the commissioner's agent licensing system and the company's license-tracking system:

- Three agents shown as listed by the company were not shown as listed by the commissioner. Two of those agents wrote a total of 409 policies. Section Ins 6.57 (5), Wis. Adm. Code, states that no insurer shall accept business directly from any intermediary unless that intermediary is a licensed agent listed with that company.

A recommendation in the Underwriting, File Review, section of this report requests that the company implement a system to verify compliance with Ins. 6.57(5), Wis. Adm. Code.

- Thirteen agents shown as listed by the commissioner were not shown as listed by the company. The company indicated those agents had been terminated, but that no notice had been sent to the commissioner. Section Ins 6.57 (2), Wis. Adm. Code, states, in part, that notice of termination of appointment of an individual intermediary-agent shall be filed prior to or within 30 calendar days of the termination date with the commissioner.

It is recommended that the company file notices of termination of appointment of its agents prior to or within 30 days of termination with the commissioner in order to ensure compliance with s. Ins 6.57 (2), Wis. Adm. Code.

Internet Marketing

The company's strategy for use of the Internet is focused on information, education, on-line insured self-service for policy changes/information and claims submission, and, in some states, quote/bind capability. The company does not provide quote/bind capability in Wisconsin. The main web site, www.allstate.com, provides information about its insurance products and available financial services, general financial/insurance information for consumers, and the capability to find a local agent. The customer care section allows an insured to enter a user ID and PIN number to report a

claim, get a claim status, check a billing status, make a payment, view policy information, and request policy changes.

Agents are not allowed to maintain a company branded or sponsored Internet page other than what is provided by the company. Each agent is automatically set up with a company sponsored standard home page and given the option to sign up for a customized version. The company provides all on-line banners and all banners link back to the company sponsored web page. An agent may set up his/her own non-company branded site, but may not mention the company or its products and affiliates.

POLICYHOLDER SERVICE AND COMPLAINTS

The examiners reviewed the company's procedure for handling complaints. The company has a manual entitled "Company/Contact Handling Guidelines". The manual sets out the company's procedures and processes for handling OCI and non-OCI complaints. A complaint is defined as any written or oral communication received by the company expressing dissatisfaction. The customer advocate is responsible for state insurance department complaints, telephone complaints to the home office, and telephone and written complaints to any regional office. Written complaints sent to the home office are initially handled by a home office staff person; then handled by the customer advocate. Complaints are recorded in the Customer Contact Response System (CCRS). The customer advocate contacts the proper department and investigates the complaint and is the only person who may close the complaint, after all aspects of the complaint have been addressed. Information generated as a result of an insured's contact can be obtained via the CCRS system and can be sorted by state.

IV. CONCLUSION

A total of 18 recommendations were made relating to modifications of policy forms, underwriting manuals and files, claims procedures, and agent listing and termination procedures.

The company shall revise its forms and underwriting manuals, guidelines, and procedures to ensure compliance with current Wisconsin insurance laws and rules, commissioner's positions, and Wisconsin Supreme Court decisions. The company shall implement a procedure to ensure that it files and receives approval to use all forms subject to s. 631.01 (1), Wis. Stat. The company shall develop and implement a program to verify that the agents submitting applications are duly listed with the company. The company shall also file notices of termination of appointment of agents within the time required by Wisconsin laws and rules. The company shall also submit a plan to promptly reimburse its insureds' deductibles when collecting installment payments from negligent parties in order to make its insureds whole.

V. SUMMARY OF RECOMMENDATIONS

FORMS REVIEW

1. Page 4 - It is recommended that the company revise form BU9403B (8-99) to comply with s. Ins 4.01 (h), Wis. Adm. Code.
2. Page 4 - It is recommended that the company amend its current Wisconsin Changes Endorsement, CG 01 24 01 93, to reflect the proper sections and/or conditions in the forms listed in this report for the Legal Action Against Us and Transfer of Rights of Recovery Against Other to Us conditions.
3. Page 5 - It is recommended that the company implement a procedure to ensure that it files and receives approval to use all forms subject to s. 631.01 (1), Wis. Stat., in order to comply with s. 631.20 (1), Wis. Stat.
4. Page 5 - It is recommended that the company amend its current Wisconsin Changes endorsement, CM 01 05 09 00 to reflect the proper reference to item G. Transfer of Rights of Recovery Against Other to Us in form BU9212 (Ed. 8-89).
5. Page 5 - It is recommended that the company revise the Customizer Business Insurance Policy Named Peril, form BU5560 (Ed. 1-96), page 9, number 8. Vandalism and Malicious Mischief, to provide for coverage for losses if the building has been vacant or unoccupied for less than 61 days.
6. Page 6 - It is recommended that the company revise the Cross Suits Endorsement, UEL19 (Ed. 10-86), to not apply to motor vehicle liability claims involving persons related to the insured in order to comply with s. 632.32 (6) (b) 1, Wis. Stat.
7. Page 6 - It is recommended that the company withdraw and discontinue use of the Amendment of the Fellow Employee Exclusion endorsement, form BU1124 (Ed. 1-97), in order to comply with ss. 632.32 (3) (a) and 102.03 (2), Wis. Stats.
8. Page 8 - It is recommended that the company revise its homeowners insurance policy forms as detailed in the text of this section of the report in order to comply with ss. 631.95 (2) (f), 631.81 (1), 631.36 (2) (c), and 631.13, Wis. Stats. and s. Ins 6.76 (3), Wis. Adm. Code.
9. Page 8 - It is recommended that the company revise its renters insurance policy forms as detailed in the text of this section of the report in order to comply with ss. 631.95 (2) (f), 631.81 (1), and 631.36 (2) (c), Wis. Stats.
10. Page 9 - It is recommended that the company revise its condominium owners insurance policy forms as detailed in the text of this section of the report in order to comply with ss. 631.95 (2) (f), 631.81 (1), 631.36 (2) (c), and 631.13, Wis. Stats.

UNDERWRITING

11. Page 10 - It is recommended that the company revise its Wisconsin guidelines to reflect its current procedure regarding prior liability insurance and clarify that a carrier which had provided liability insurance to an applicant is considered as prior insurance, in order to ensure compliance with s 628.34(11), Wis. Stat..
12. Page 13 - It is recommended that the company develop a procedure to accurately state, with reasonable precision of the facts required by s.631.36, Wis. Stat., the complete reason that a policy is being cancelled or nonrenewed and submit the procedure for

approval within 90 days of the adoption of the report in order to ensure compliance with the commissioner's position regarding the use of credit reports in underwriting personal automobile and homeowners policies.

13. Page 13 - It is recommended that the company include in its nonrenewal notices an offer to continue or renew the policy if the policy is nonrenewed solely because of the termination of the insurance marketing intermediary's contract in order to comply with s. 631.36 (4m), Wis. Stat.
14. Page 14 - It is recommended that the company develop and implement a program to verify that the agents submitting applications are duly listed with the company in order to ensure compliance with s. Ins 6.57 (5), Wis. Adm. Code, and submit a summary of the program to the Commissioner within 90 days of the adoption of this report.

CLAIMS

15. Page 15 - It is recommended that the company submit a plan to promptly reimburse its insureds' deductibles when collecting installment payments from negligent parties in order to make its insureds whole and to comply with the Wisconsin Supreme Court decision, Rimes v. State Farm Mutual Automobile Insurance Company, 106 Wis. 2d 263.
16. Page 15 - In order to document its claim files, it is recommended that the company implement procedures that ensure a written claim denial is sent and documented in the claim file promptly after the claim is verbally denied.
17. Page 15 - It is recommended that the company include interest on claims that are not paid within 30 days of receipt of documentation in order to comply with s. 628.46, Wis. Stat.

MARKETING AND SALES

18. Page 18 - It is recommended that the company file notices of termination of appointment of its agents prior to or within 30 days of termination with the commissioner in order to ensure compliance with s. Ins 6.57 (2), Wis. Adm. Code.

VI. ACKNOWLEDGMENT

The cooperation and courtesy extended the examiners is acknowledged. In addition to the undersigned, Laura Andreasson, Rebecca Rebholz, and Jane Kovacik, of the Office of the Commissioner of Insurance, participated in the examination and preparation of this report.

Respectfully submitted,

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Examiner-in-Charge